Asset Sales Program

Frequently Asked Questions

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Link to Sections:

List of Questions

1. What is the Asset Sales Program?
2. What prompted the need to launch the Asset Sales Program?
3. What was the result of the first sale?
4. What is the potential volume of assets to be sold?
5. What is the preliminary date for Sale #3, and what is the anticipated size of the sale?
6. Who are SBA's contractors for Sale #3?
7. Will Sale #3 include performing and non-performing loans?
8. Will SBA's marketing of the asset portfolios be directed to the large, institutional prospective bidders, or will the local and regional prospective bidders be targeted?
9. Do the SBA Field Offices have a role in the Asset Sales Program?
10. Does SBA expect to consolidate files and have an investor due diligence facility in Washington, D.C.?
11. What kind of sales volume does the SBA expect to rollout over the next 12 to 24 months?
12. How is the SBA defining non-performing? Performing?
13. Will a list of prospective bidders interested in teaming (e.g., asset managers teaming with capital sources) be available?
14. What kind of assets does the SBA have for sale?
15. Have all these loans defaulted and the guaranty been paid?
16. The asset sales may include loans that were originated under which of the SBA programs?
17. What makes Disaster Assistance loans unique?
18. Will the original lender be disclosed through due diligence, since this is often an indication of loan quality in some prospective bidders' estimation?
19. Who is the current servicer (i.e., type of entity)?
20. What is the collateral for the different types of loans that will be for sale?
21. Do the properties securing the loans in the sale have new or old BPOs/appraisals?

22. Does SBA obtain credit scores and credit reports on the borrowers and guarantors obligated on the loans that are being sold?

23. Can we get an inventory of all the loan assets that may be available for purchase in a loan sale?

24. When will individual loan level information for Sale #3 be available to prospective bidders?

25. Are any of these loans in litigation or is the collateral in foreclosure?

26. Are there outstanding lender participations in the assets being sold?

27. What type of ownership will be available to the successful purchaser?

28. As a prospective bidder, how can I stay abreast of developments?

29. Does SBA have an internal sales team? Should the prospective bidder contact the sales team and schedule a meeting to discuss its interests?

30. Has the SBA considered not ordering Broker's Price Opinions (BPO's) since most large prospective bidders will order their own?

31. Does SBA expect to use imaging technology or paper copies for presentation of the due diligence materials?

32. What is the status of taxes and insurance on the properties that collateralize the loans in the sale?

33. Will SBA be using whole loan sales entirely or will other structures be a part of the Asset Sales Program?

34. Has the SBA considered using the RTC "N Series" structure where the SBA retains an interest and is able to benefit from upside potential on collections?

35. Will the loans for sale be aggregated geographically or by other criteria?

36. Will the loans be bundled by collateral type?

37. Will borrowers be allowed to participate in the sales process and potentially, purchase their own loan?

38. Will lenders who own a percentage of the loans be allowed to participate in the sales program?

39. Has the SBA considered not requiring a bid deposit or requiring a bid deposit less than 10% - for example, 5% or 1 %?

40. Has the SBA considered not requiring a wire transfer, but requiring a cashier's check that can be held in safekeeping and returned if the bidder is unsuccessful?

41. What about representations and warranties from the SBA, such as right to sell, ownership by SBA, enforceability, accurate items on the Mortgage Schedule (which sets forth the loan number, UPB, and accrued interest among other things)?

42. Does the successful bidder have the right to put back loans to the SBA for breaches of any representation or warranty?

43. Do I need a special lender to hold or service the loans?

44. Is there any interim servicing period?

45. Must we service the loans according to SBA standards?

46. Are there any restrictions on modifying or restructuring these loans?

Launching the Sales Program

1. What is the Asset Sales Program?

The Asset Sales Program is an initiative designed to sell the SBA-owned loan portfolio, including the SBA-purchased guarantees (both SBAserviced and Lender-serviced) and the SBA-direct loans. Sales will be conducted in an open and competitive manner, and in such a way as to achieve the best value for the government. The FY 1998, 1999, and 2000 federal budgets outlined the mandate to sell these loans, in support of providing more resources to the key issues of fulfilling the SBA's mission. When the Program was initiated in 1999, the total portfolio of SBA-owned loans consisted of approximately $1.7 billion in Section 7(a) and 504 business loans and $6.9 billion in home and business disaster assistance loans. Check the SBA Portfolio link for the current portfolio balances.

2. What prompted the need to launch the Asset Sales Program?

SBA Administrator Aida Alvarez has promoted a vision for SBA to become a 21st Century leading-edge financial institution. There are several components to achieving that vision, including the implementation of a new, comprehensive lender monitoring program and focusing more resources on the production of new loan business. The Asset Sales Program will reduce the intense resource demands of loan servicing, allowing allocation of staff to those mission-critical areas where the biggest impact can be made.

Furthermore, the Asset Sales Program is a prudent portfolio tool that assists with the management of credit exposure. More and more federal credit agencies are finding that asset sales programs are an effective mechanism for engaging the expertise of the private sector in loan packaging, pricing, and disposition.

3. What was the result of the first sale?

The first sale, conducted in August 1999, included 4,060 small business loans that SBA had either made directly or had previously guaranteed for private sector lenders. The unpaid principal balances for the loans included in the sale totaled approximately $332 million, with about half the loans classified as non-performing or under- performing. The loans were divided among 26 loan pools in order to maximize value.

SBA received 135 bids from 25 different bidders for the 26 different loan pools. The winning bids varied widely based on the characteristic of the various loan pools. The criteria used to pool the loans included: performing vs. non-performing, real estate collateral vs. business assets, secured vs non-secured, lien position, loan to value ratios, location of collateral and environmental issues. SBA realized, in aggregate, $195 million in proceeds from the sale of these pools, a $90 million premium over the $105 million that the government estimated it would receive if it held the loans to maturity.

See the Sale #1 press release at www.sba.gov/news/current99/99-68.html.

4. What is the potential volume of assets to be sold?

As of January 31, 2000, the total portfolio of SBA-owned loans and assets consists of approximately $1.1 billion in Section 7(a) and Section 504 business loans and approximately $6.8 billion in home and business disaster assistance loans.

SBA is committed to moving forward with the Asset Sales Program in a way that serves the public policy issues which are central to SBA's core mission. SBA and its sales advisors will evaluate different alternatives to ensure the program achieves best value for the government; and that means balancing the financial interests (sales proceeds) with the public policy objectives.

5. What is the preliminary date for Sale #3 and what is the anticipated size of the sale?

The sale date is currently planned for December 5, 2000. It will include approximately $1 billion in loan UPB, made up of an estimated $900 million in Disaster Assistance loans and an estimated $100 million in SBA Business loans.

6. Who are SBA's contractors for Sale #3?

SBA engaged Whitestone Capital Group, Inc. as the Program Financial Advisor for the overall sales program. Also, SBA engaged the following sales contractors for the second sale:

- Hanover Capital Partners, Ltd. and KPMG Consulting, LLC are the Transaction Financial Advisor;
- METEC Asset Management, LLP is the Due Diligence Contractor; and
- Leftwich & Douglas, P.L.L.C. and Hughes Hubbard & Reed, LLP are the Outside Legal Advisor.

7. Will Sale #3 include performing and non-performing loans?

Yes. Sale #3 will include both performing and non-performing loans. The Bidder Information Package will contain detailed loan performance. Loan performance is a major criterion for stratifying loans into various pools for bidding.

8. Will SBA's marketing of the asset portfolios be directed to the large, institutional bidders, or will the local and regional bidders be targeted?

SBA is very proud of its efforts to promote small businesses. The SBA is developing a sales program that achieves both financial and public policy objectives, and is inclusive of small businesses.

Certainly on whole loan sales, SBA envisions a broad marketing campaign aimed at garnering interest from prospective bidders of all sizes. The sales contractors will be developing initiatives to ensure that small prospective bidders can participate in the bidding process.

9. Do the SBA Field Offices have a role in the Asset Sales Program?

The SBA field offices have a critical role in the Asset Sales Program. The field office staff is the link to the assets. SBA's Asset Sales Team works closely with the Office of Field Operations, the District Offices, and the Servicing Centers. A sales contact has been established at each office.

10. Does SBA expect to consolidate files and have an investor due diligence facility in Washington, D.C.?

Yes. A central collection and viewing location worked well for SBA in Sales #1 and #2. SBA and its sales contractors will continue to evaluate alternatives that allow for the most effective investor due diligence. The Investor Due Diligence Facility for Sale #3 is located in Washington, D.C., with easy access to the Metro. In addition, the due diligence data will be available on electronic media and the imaged documents will be available via an internet address.

11. What kind of sales volume does the SBA expect to rollout over the next 12 to 24 months?

SBA expects to conduct 2-3 sales per year.

12. How is the SBA defining non-performing? Performing?

It is SBA's intent to define performing and non-performing in standard market terms. The Bidder Information Package for each sale will describe loan performance and define such terms.

13. Will a list of prospective bidders interested in teaming (e.g., asset managers teaming with capital sources) be available?

Yes, in Sale #3, Hanover Capital/KPMG Consulting plans to maintain a list of prospective bidders who would like to team with others. Please contact Hanover Capital/KPMG Consulting for more information at 877-457-6754, sbasale3@hanovercapital.com.

Assets To Be Sold

14. What kind of assets does the SBA have for sale?

The assets that will be included in the Asset Sales Program include:

- small business loans on which the SBA has paid its guarantee to the lender or investor (these may be Section 7(a) or Development Company loans, primarily Section 504's),
- small business loans that SBA made directly to the borrower, and
- home and business disaster assistance loans that SBA originated and serviced.

15. Have all these loans defaulted and the guaranty been paid?

No. Sale #3 includes both SBA Business loans and Disaster Assistance loans. Some of the Business loans (Section 7(a) and 502, 503, and 504 loans) in Sale #3 are direct loans, which means they were made and serviced by SBA. These loans are not necessarily in default. The majority of the Section 7(a), 502, 503, and 504 Business loans, however, were originally guaranteed; the loans defaulted and SBA paid the guaranty. No further guaranty is available on these loans.

The largest component of Sale #3 is the portfolio of Disaster Assistance loans (including Disaster Business and Disaster Home loans). These loans are all direct loans and many of these loans are performing. The Bidder Information Package will contain complete information on the performance of the loans.

16. The asset sales may include loans that were originated under which of the SBA programs?

- SBA's 7(a) Loan Guaranty Program: Section 7(a) of the Small Business Act authorizes the SBA to guarantee loans to small businesses that cannot obtain financing on reasonable terms through normal lending channels. The SBA basic guaranty program generally is used to fund the varied long-term needs of small businesses. The program is designed to promote small business formation and growth by guaranteeing long term loans to qualified firms. Loans are available for many business purposes, such as real estate, expansion, equipment, working capital or inventory. For more information, visit the SBA website at www.sba.gov/financing/fr7aloan.html.

- SBA's Certified Development Company (504 Loan) Program: Certified development companies (CDCs) are organizations (primarily non-profit corporations) that are established to contribute to the economic development of their community or region. Under the 504 CDC loan program long-term fixed rate financing is provided to small businesses, who use the funds to acquire real estate, machinery and equipment for expansion of business or modernization of facilities. Typically, 504 projects are financed as follows: 50 percent by an un-guaranteed bank loan in a first lien position, 40 percent by an SBA-guaranteed debenture in a second lien position and 10 percent by the small business customer. For more information, visit the SBA website at www.sba.gov/financing/frcdc504.html.

NOTE: The SBA has two inactive Development Company loan programs that have loans outstanding - the 502 and 503 Programs. These loans were offered to achieve the same objective as the 504 Program.

- Home Disaster Assistance Loans: Loans are available to qualified homeowners for uninsured losses up to $200,000 to repair or restore a primary residence to pre-disaster condition. Homeowners may apply for an additional 20 percent of the loan amount for disaster mitigation. This is the major long-term recovery program for individual disaster losses. In addition, loans are available to qualified homeowners and renters for uninsured losses up to $40,000 to repair or replace personal property such as clothing, furniture, cars, etc.

- Business Disaster Assistance Loans: Disaster Assistance loans to businesses come in two forms: loans for physical losses and loans for economic injury.

  Physical Loss: Loans for uninsured losses to qualified businesses (large and small businesses and non-profit organizations) to repair or replace business property to pre-disaster conditions. Loans may be used to replace or repair equipment, fixtures and inventory, and to make leasehold improvements.

Economic Injury: Loans to small businesses that sustain economic injury as a direct result of a disaster and can not obtain credit elsewhere. These working capital loans are made to help businesses pay ordinary and necessary operating expenses which would have been payable barring disaster.

For more information on Disaster Assistance Loans, visit the SBA website at www.sba.gov/DISASTER/.

17. What makes Disaster Assistance loans unique?

As a portfolio, the Disaster Assistance loans are among the best performing loans in SBA's inventory. The Disaster Assistance loans are made to individuals and businesses to help them recover from natural disasters.

These are SBA-direct loans that originate from four disaster area offices (Atlanta, Fort Worth, Niagara Falls, and Sacramento) using standard loan documents. The loans are SBA-serviced, using SBA's standard loan collection practices, at servicing centers, district offices, and branch offices throughout the country, with the exception of one private sector servicer who manages 30% of the home disaster assistance loan portfolio.

18. Will the original lender be disclosed through due diligence, since this is often an indication of loan quality in some prospective bidders' estimation?

Yes.

19. Who is the current servicer (i.e., type of entity)?

SBA currently services the Disaster Assistance loans in Sale #3. The remainder of the loans are serviced by either SBA or the originating lender or development company. The current servicer will be clearly identified in the due diligence materials.

20. What is the collateral for the different types of loans that will be for sale?

The Bidder Information Package will provide the specific descriptions of all collateral securing each of the loans offered for sale. In general, the collateral is as diverse as the businesses that SBA supports in its Section 7(a), Development Company, and Disaster Assistance Loan programs. SBA is typically a cash flow lender with security interests in machinery and equipment, furniture & fixtures, leasehold improvements, as well as commercial real estate, residential real estate, and vacant land parcels.

SBA also supports recovery from natural disasters for individuals (the Home Disaster Assistance loans). These loans may be secured by a lien interest on a personal residence or other real estate. There are also unsecured loans in the portfolio.

21. Do the properties securing the loans in the sale have new or old BPOs/appraisals?

The files may contain appraisals or indications of value that were obtained during loan servicing. SBA is also obtaining current BPOs or appraisals on the larger loans in Sale #3. All of this information will be available in the due diligence materials.

22. Does SBA obtain credit scores and credit reports on the borrowers and guarantors obligated on the loans that are being sold?

Yes, SBA obtained credit scores and credit reports for loans in Sales #1 and #2, and is doing so for loans in Sale #3.

23. Can we get an inventory of all the loans that may be available for purchase in a loan sale?

An inventory of all the loans in each sale will be made available as each sale is marketed. In order to obtain this information, prospective bidders must execute a Confidentiality Agreement (see www.sba.gov/assets/sale3.html and Bidder Qualification Statement (see www.sba.gov/assets/sale3.html) and pay a nominal fee. The Transaction Financial Advisor will then forward the Bidder Information Package containing the loan inventory.

24. When will individual loan level information for Sale #3 be available to prospective bidders?

SBA is currently planning to make the Sale #3 Bidder Information Package, containing the loan level data, available by mid to late September, 2000.

25. Are any of these loans in litigation or is the collateral in foreclosure?

The Asset Sales Program may include loans in litigation and such loans could be part of Sale #3. The litigation status will be readily identifiable from the due diligence material. SBA has found a broad and active market for loans in litigation and has been pleased with prior sales results.

Participating Lenders’ Interests

26. Are there outstanding lender participations in the assets being sold?

Potentially in future sales, but not in Sale #3. At the origination of the non-direct SBA loan, SBA guaranteed up to 90% of the loan. Upon default and claim by the lender, SBA honored the guarantee, leaving some percentage retained by the lender. SBA expects that lenders will want to contribute their minority (unguaranteed) interests in the sale, so that prospective bidders are buying whole loans. For those lenders who don't however, a package of SBA-only participations may be offered. All loans in Sale #3 are whole loans. SBA obtained the consent of the participating lenders to sell their interest along with SBA’s interest.

27. What type of ownership will be available to the successful purchaser?

The purchaser effectively "steps into SBA’s shoes" with regard to the purchased assets. This would take the form of ownership of notes and assignments of security interests in collateral, if any. If participations are offered, then the purchaser will have SBA's interest, which is likely to be 80-90%, in a participation with the originating lender. No participations are included in Sale #3; only whole loans.

Asset Sales Program Developments

28. As a prospective bidder, how can I stay abreast of developments?

Three ways: (1) visit the SBA Asset Sales Program website (go to http://www.sba.gov/assets) and watch for announcements online, (2) watch the national financial publications, such as The Wall Street Journal, for advertisements of upcoming sales, and (3) send a letter, fax, or e-mail to the SBA Program Financial Advisor, providing your name, address, contact person, phone, fax, and email address. All of SBA's transaction financial advisors will use these records for direct mailings.

MAIL: Whitestone Capital Group
1270 Avenue of the Americas
Rockefeller Center, Suite 2110
New York NY 10020
ATTN: Anthony Taitt, Managing Director

PHONE: (212) 332-2971
FAX: (212) 332-7946
EMAIL: wataitt@whitestonegroup.com

Specific inquires related to SBA Loan Sale #3 should be directed to the Transaction Financial Advisor as follows:

MAIL: Hanover Capital Partners, Ltd.
100 Metroplex Drive, Suite 301
Edison, NJ 08817
Attention: Joyce Mizerak, Senior Managing Director
SBA Loan Sale #3

PHONE: 732-393-3014
FAX: 732-572-5959
EMAIL: sbasale3@hanovercapital.com

29. Does SBA have an internal sales team? Should the prospective bidder contact the sales team and schedule a meeting to discuss its interests?

SBA has staff assigned to the Asset Sales Program, but prospective bidders should contact the Program Financial Advisor to discuss the program; and contact the Sale #3 Transaction Financial advisor to discuss Sale #3.

Sales Structure

30. Has SBA considered not ordering Broker's Price Opinions (BPO's) since most large prospective bidders will order their own?

SBA is committed to establishing a level playing field for all prospective bidders. It may be true that large prospective bidders will obtain their own BPOs. However, the SBA believes that providing some common due diligence materials to all prospective bidders serves to keep the "price of entry" down and encourage more bidders, large and small alike.

31. Does SBA expect to use electronic imaging technology or paper copies for presentation of the due diligence materials?

SBA plans to use electronic imaging. Imaging is cost-effective for SBA and it significantly reduces the prospective bidders' due diligence costs for sales that include thousands of loans. Direct mailings will contain updates on the investor due diligence plans for each sale.

32. What is the status of taxes and insurance on the properties that collateralize the loans in the sale?

SBA does not escrow for taxes and insurance as a standard practice. The due diligence information will reveal what SBA knows of the current status of taxes and insurance from existing file information.

33. Will SBA be using whole loan sales entirely or will other structures be a part of the Asset Sales Program?

SBA is committed to using sales structures that return the best value to the government over the life of the program. The considerations are not purely monetary, as the public policy objectives play heavily in the equation.

34. Has SBA considered using the RTC "N Series" structure where SBA retains an interest and is able to benefit from upside potential on collections?

Sale #3 will be a sealed bid auction. SBA is familiar with the RTC "N series" and other retained interest structures. SBA believes the retained interest structure is a viable tool and it may be used for future sales.

35. Will the loans for sale be aggregated geographically or by other criteria?

For each individual sale, the SBA and its sales contractors will review the portfolio to determine the asset mix and structure that will achieve public policy objectives, maximize return and minimize costs. The most effective stratification of loans cannot be determined until the portfolio to be sold has been identified and the due diligence has been completed and evaluated. The loans will be stratified into different pools according to certain characteristics. The Bidder Information Package will contain a detailed description of the loan pool characteristics.

36. Will the loans be bundled by collateral type?

SBA and its sales contractors will evaluate each portfolio for sale to develop an appropriate stratification. In addition to collateral, other characteristics such as loan performance and geography are considered.

37. Will borrowers be allowed to participate in the sales process and potentially, purchase their own loan?

Yes. Borrowers who are qualified to bid can bid on one or more pools of loans, including those pools that contain the borrower's loan(s).

38. Will lenders who own a percentage of the loans be allowed to participate in the sales program?

Yes. SBA has more than 6,000 lending "partners" and they are considered interested prospective bidders for these loans. Lenders who are qualified to bid can bid on one or more pools of loans, including those pools that contain loans that were originated and serviced by them.

39. Has the SBA considered not requiring a bid deposit or requiring a bid deposit less than 10% - for example, 5% or 1%?

Yes, SBA carefully considered the bid deposit requirements. In Sale #3, the bid deposit will be 10 percent of the investor's largest bid. SBA is concerned about attracting only serious prospective bidders who have some deposit at risk as an indication of their ability to stand behind successful bids.

40. **Has the SBA considered not requiring a wire transfer,** but requiring a cashier's check that can be held in safekeeping and returned if the bidder is unsuccessful?

SBA plans to use wire transfers to receive bidders' deposits and to return deposits to those unsuccessful bidders. Wires create less administrative work and are more expedient than receiving checks.

41. What about representations and warranties from the SBA, such as right to sell, ownership by SBA, enforceability, accurate items on the Mortgage Schedule (which sets forth the loan number, UPB, and accrued interest among other things)?

SBA is currently evaluating the pros and cons of different representations and warranties to use in Sale #3. The representations and warranties are contained in the Loan Sale Agreement, which is part of the Bidder Information Package.

42. Does the successful bidder have the right to put back loans to the SBA for breaches of any representation and warranty?

SBA will determine remedies for breaches along with determining the representations and warranties that will be offered. It is common for the seller to have some flexibility in choosing the remedy, whether it be loan repurchase, cash payment for a value difference, or loan substitution.

43. Do I need a special lender to hold or service the loans?

SBA is currently considering servicer qualifications and post-sale servicing requirements for Sale #3. Such items are part of the Loan Sale Agreement, which will be available to prospective bidders in the Bidder Information Package.

44. Is there any interim servicing period?

The SBA is interested in closing the sale with the successful purchasers as quickly as possible after the bid date. The mechanics of closing are being developed and the number of successful purchasers may also affect the timing.

45. Must we service the loans according to SBA standards?

No, in Sale #3, SBA plans to allow purchasers to service the loans according to market conventions. However, there may be post-sale servicing requirements that have to be addressed. Such requirements will be identified in the Loan Sale Package that is a part of the Bidder Information Package.

46. Are there any restrictions on modifying or restructuring these loans?

No, in Sale #3, there are no such restrictions.

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